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NAVAL POSTGRADUATE SCHOOL
MONTEREY, CALIFORNIA

THESIS

MANAGEMENT AND ACCOUNTING OF GOVERNMENT-FURNISHED PROPERTY IN TODAY'S ARMY ACQUISITION PROGRAMS

by

John R. Oxford Jr.

December, 1995

Principal Advisor: John T. Dillard
Associate Advisor: Mark W. Stone

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One area of Government acquisition which has recently received special attention from Congress and the Department of Defense is the management and accounting for Government-Furnished Property. This facet of Government acquisition is also under great scrutiny as an entire Process Action Team was assigned to examine and make recommendations for the Federal Acquisition Regulation Part 45 Rewrite Team established by the Director, Defense Procurement, Eleanor Spector. Government- Furnished Property was also debated during the recent 1995 Defense Acquisition Research Symposium. The intent of this thesis is to understand why Government-Furnished Property is used, how the use of Government-Furnished Property can assist an Army Program Manager save in costs and operate more effectively, and document needed changes to current regulations. Twelve separate recommendations are presented which highlight changes to existing regulations, policies, oversight, and staffing. The focus of the research was to visit and survey Army acquisition agencies and their Defense contractors to document their current concerns and comments for the use of Government-Furnished Property in their specific programs.

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MANAGEMENT AND ACCOUNTING OF GOVERNMENT-FURNISHED PROPERTY IN TODAY'S ARMY ACQUISITION PROGRAMS

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Submitted in partial fulfillment
of the requirements for the degree of

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ABSTRACT

One area of Government acquisition which has recently received special attention from Congress and the Department of Defense is the management and accounting for Government-Furnished Property. This facet of Government acquisition is also under great scrutiny as an entire Process Action Team was assigned to examine and make recommendations for the Federal Acquisition Regulation Part 45 Rewrite Team established by the Director, Defense Procurement, Eleanor Spector. Government-Furnished Property was also debated during the recent 1995 Defense Acquisition Research Symposium. The intent of this thesis is to understand why Government-Furnished Property is used, how the use of Government-Furnished Property can assist an Army Program Manager save in costs and operate more effectively, and document needed changes to current regulations. Twelve separate recommendations are presented which highlight changes to existing regulations, policies, oversight, and staffing. The focus of the research was to visit and survey Army acquisition agencies and their Defense contractors to document their current concerns and comments for the use of Government-Furnished Property in their specific programs.

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I. INTRODUCTION

A. GENERAL

With the end of the Cold War and a clear U.S. victory in Operation Desert Shield/Storm, the new administration in control of the Government has clearly refocused its efforts to reduce the enormous Federal deficit. Because the Department of Defense (DOD) is funded by discretionary appropriations, it is easy for Congress to cut defense spending and in particular, DOD research and development and acquisition programs which consume a large portion of the military's budget.

This new era has seen defense outlays decrease well below 4% of the Gross Domestic Product as compared to about 12% at the end of the Korean War. Even during the Reagan defense build up in the mid-1980's, defense outlays as a percentage of Gross Domestic Product only peaked at 6.3%. The trend is forecasted to continue. [Ref. 8: pp A-2]

With the advent of downsizing or rightsizing, DOD is always looking at ways to spend the scarce DOD dollar more wisely and effectively. One way to be more effective is to look at what policies and procedures outlined in the defense

procurement regulations can reduce the Program Manager's (PM) costs and still produce a system that meets the requirements of the user. A Program Manager must constantly address each facet of Government procurement in his program to identify smarter and more advantageous ways of meeting his Acquisition Strategy. This study examines the Army's use of Government-Furnished Property to better understand the policies and procedures for its use in order to save in costs and promote a more effective utilization of Government-Furnished Property.

B. OBJECTIVE OF THE RESEARCH

There have been several General Accounting Office (GAO) reports and Congressional hearings concerning the misuse of Government-Furnished Property. This thesis evaluates this area of Government acquisition to see if serious and systemic problems do exist. The purpose of this thesis is to research why Government-Furnished Property is used, how the use of Government-Furnished Property can assist an Army Program Manager save in costs and operate more effectively, and document needed changes to current regulations. The focus of the research was to visit and survey Army acquisition agencies and their Defense contractors to

document their current concerns and comments for the use of Government-Furnished Property in their specific programs. This research also addresses the past problems DOD faced in accountability, and past abuses of contractors in possession of Government-Furnished Property.

Given this objective, this thesis answers the following questions:

Primary:

1. Can current Army Acquisition programs manage and account for Government-Furnished Property in a more effective manner in terms of man-hours expended and monetary savings?

Subsidiary:

1. Are the existing regulations and policies for the use, management, and accounting of Government-Furnished Property sufficient and adequate?

2. Is existing higher headquarters' oversight sufficient and adequate?

3. Are Army acquisition agencies currently using Government-Furnished Property according to Army regulations and DOD guidance?

4. Do Army acquisition agencies staff for management of Government-Furnished Property in an effective manner?

C. SCOPE AND LIMITATIONS OF THE STUDY

The scope of this research involves a detailed assessment of the current DOD policy for using Government-Furnished Property. It is not limited to the size or type of product or service being provided. It is limited to Army acquisition agencies and their Defense contractors. The use of a mailed survey and personal interviews with pertinent Army Property Managers and their Defense contractors, result in a sufficient data base for analysis.

D. METHODOLOGY

The research data were collected by means of an extensive literature search involving several agencies. The literature, consisting of Government agency reports, current regulations and directives, and Government audit reports, was accumulated through the Naval Postgraduate School

Library, the Defense Logistics Studies Information Exchange (DLSIE), and the Defense Technical Information Center (DTIC). Other data were acquired from the Naval Postgraduate School Acquisition Library included the Federal Acquisition Regulation (FAR), Department of Defense Federal Acquisition Regulation Supplement (DFARS), General Accounting Office (GAO) Audit Reports, and U.S. Congressional Hearings.

A comprehensive survey was mailed to active Army Program Managers and their Defense contractors using a variant of the data source matrix. The primary thesis question served as the overall issue and the four subsidiary questions as the criteria. From the four subsidiary questions, data requirements were developed which will form the body of the survey in order to use as an analytical approach for answering the primary question. Personal interviews were also conducted with Army Property Administrators and their Defense contractors at Redstone Arsenal, Alabama to clarify and verify the data collected in the surveys.

E. ORGANIZATION OF THE STUDY

Chapter II provides an overview of Government-Furnished Property at the DOD level. This chapter also defines Government-Furnished Property and gives an historical perspective of Government-Furnished Property throughout the history of our military. Chapter II also outlines DOD's current policy and conditions that traditionally warrant the use of Government-Furnished Property.

Chapter III outlines the decision criteria for the use of Government-Furnished Property. It begins by outlining the advantages and disadvantages for the use of Government-Furnished Property. The chapter closes with the decision factors for the use of Government-Furnished Property using an analysis of the advantages and disadvantages as a basis for its feasibility for use.

Chapter IV outlines the Army's organization for accounting for the use of Government-Furnished Property. It also outlines the reporting system for Government-Furnished Property to higher headquarters. Finally, Chapter IV discusses the role of the Property Administrator in the Program Manager's office.

Chapter V reports the results of a comprehensive survey mailed to Army Property Managers and their Defense

contractors using a variant of the data source matrix. Results of each of the 13 questions are followed by an in-depth analysis. A discussion of the overall results and their impact concludes this chapter.

Chapter VI discusses conclusions and recommendations of the overall survey and personal interviews. The results will be sent to key personnel and managers of Government-Furnished Property for consideration for future changes to current regulations and policies.

II. OVERVIEW OF GOVERNMENT-FURNISHED PROPERTY

A. DEFINITION

The Federal Acquisition Regulation (FAR), Part 45 defines Government-Furnished Property as "all property owned by or leased to the Government or acquired by the Government under the terms of the contract". [Ref. 27: pp 45.101] This means that any property provided by the Government as well as any property obtained by the contractor for use in the contract may be considered as Government-Furnished Property.

There are two basic categories of Government-Furnished Property; tangible and intangible. Tangible property consists of five separate categories: material, special tooling, special test equipment, property designed for military operations, and facilities used for production, maintenance, research, development, or test purposes in the acquisition process.

Intangible property, unlike tangible property, is a little more difficult to define. Like intellectual property, it is basically any information or data used in the performance of the contract. Therefore, drawings,

patterns, models, charts, and technical data packages could all be construed to be Government-Furnished Property. [Ref. 1: pp 8-2]

Government-Furnished Property should not be confused with other closely related terms such as Government-Furnished Equipment, Government-Furnished Material and Contractor-Furnished Equipment. Government-Furnished Equipment is any equipment used to complete or is consumed in the finished or end product of the contracted item such as a rocket motor. [Ref. 1: pp 8-2] Government-Furnished Material is any raw material that is provided by the Government and consumed by the contractor for the finished or end product. An example is kevlar, which is a synthetic material used in the production of protective helmets and vests. When originally produced, its chemical composition was closely safeguarded from foreign sources and provided to contractors as Government-Furnished Material. [Ref. 26: pp XIX-7] Contractor-Furnished Equipment is a term from the process of component breakout. In this process, the Government acts similar to a sub-contractor and directs a contractor make a specific number of items and then directs where the equipment is issued. [Ref. 26: pp XIX-8] This distinction has to be made as they are not in the purview of this thesis.

B. HISTORICAL PERSPECTIVE

The furnishing of Government property to prime contractors has been an established acquisition strategy dating back to the late 1800's. In 1884, the U.S. Army tried to reduce the contract price for muzzle-loaded rifles by providing the frames for holding the sand molds for the barrel castings. [Ref. 24: pp 169-170]

In the late 1930's, the eminent possibility of entering World War II prompted the Government to ask contractors to prepare for a rapid military mobilization of the existing industrial base. Because many companies were unwilling or unable to invest in the huge capital base required, the Government provided the plants and equipment to build the massive amounts of military equipment required to go to war. During World War II, it was common practice to provide Government-Furnished Property to private contractors manufacturing weapon systems for the military. At the height of World War II, the Government provided contractor facilities at a value of over 17 million dollars. [Ref. 9: pp 22]

As one author noted: [Ref. 23: pp 103]

> During the 1930's and 1940's Government aircraft procurement agencies typically bought such items as bombing and navigation subsystems, instruments, radar units, electrical power supply units, ground maintenance equipment, test equipment, etc. directly from specialist vendors and supplied them as Government-Furnished Property to an airframe prime contractor, which completed the job at a Government installation. Similar procedures were followed in the procurement of tanks, ships, and other moderately complex weapons.

In 1949, Congress passed the Federal Property and Administrative Services Act (40 U.S.C. 471 et seq.) which empowered the General Services Administration with the right to deal with all Government property in Federal acquisition. Overwhelmed, they redelegated the right for controlling Government-Furnished Property to the Department of Defense for its own contracting actions.

DOD took advantage of this authority and provided Government-Furnished Property to its contractors as leverage for reducing prices on contracts. The Government supplied plants, machinery, tools, and other working capital required for defense contracts. A study done in the late 1950's estimated that 10.5% of total defense contractors' fixed assets in the industrial base were provided as Government-Furnished Property. [Ref. 25: pp 147] After the

study, Congress and the GAO began to quickly identify accountability as a problem with the overabundance of the Government-Furnished Property in the hands of contractors.

In the 1950's and 1960's, the military policy shifted from discouraging Government-Furnished Property to that of component breakout. This policy is defined as "the process by which a component is converted from Contractor-Furnished Equipment to Government-Furnished Equipment". [Ref. 2: pp 14] In other words, it is taking a single product and breaking it into a number of smaller sub-products with some being provided by the Government. This policy became so important that in 1965 the Armed Services Procurement Regulation (ASPR) was amended to present detailed breakout guidelines and documentation requirements. [Ref. 2: pp 34]

C. CURRENT POLICY

Today, the Government still discourages Government-Furnished Property and maintains a policy that the contractor will furnish all property required for the performance of Government contracts. [Ref. 26: pp XIX-1] Unlike the early 1940's, contractors cannot depend on Government-Furnished Property when bidding on a contract unless expressly mentioned in the solicitation that

Government-Furnished Property will be provided. This policy also applies to small and disadvantaged businesses. The Government has no obligation to supply Government-Furnished Property to a small business firm to enable it to bid at a reasonable price. [Ref. 1: pp 8-4]

D. CONDITIONS FOR THE USE OF GOVERNMENT-FURNISHED PROPERTY

Certain conditions do exist in which Government-Furnished Property is required. In some instances, contractors may choose not to bid on a proposal unless Government-Furnished Property is provided. That is because the Government has the right to terminate any contract for its convenience. Many of the special tools and test equipment required to perform a Government contract may have little commercial value for resale or may have little use in the manufacturing of commercial products. Contractors may hesitate to make long term investments in equipment or invest in facilities because of no guarantee of return on investment after the close-out of the Government contract.

Other reasons the Government may provide Government-Furnished Property are addressed later in this thesis in an analysis of the advantages and disadvantages of

using Government-Furnished Property to fulfill the terms of the contract.

When Government-Furnished Property is authorized for use, FAR Part 45 is very clear on its use and the contracting agency's responsibilities. As set out in the policy provision in FAR Part 45, the contracting agency must: [Ref. 27: pp 45.102]

> (a) Eliminate to the maximum practical extent any competitive advantage that might arise from using such property;
> (b) Require contractors to use Government property to the maximum practical extent in performing Government contracts;
> (c) Permit the property to be used only when authorized;
> (d) Charge appropriate rental when the property is authorized for use on other than a rent-free basis;
> (e) Require contractors to be responsible and accountable for, and keep the Government's official records of Government property in their possession or control;
> (f) Require contractors to review and provide justification for retaining Government property not currently in use; and
> (g) Ensure maximum practical reutilization of contractor inventory...within the Government.

E. SUMMARY

Government-Furnished Property is clearly defined in Part 45 of the Federal Acquisition Regulation as property which is either provided to the contractor by the Government

or acquired by the Contractor and used to fulfill the terms of a Government contract. [Ref. 27: pp 45.101] The Federal Acquisition Regulation further defines Government-Furnished Property into two distinct properties: 1.) Tangible property which consists of five separate categories: material, special tooling, special test equipment, property designed for military operations, and facilities. 2.) Intangible property which is any information or data used in the performance of the contract such as drawings, patterns, models, charts and technical data packages. [Ref. 1: pp 8-2] Government-Furnished Property should also not be confused with closely related terms such as Government-Furnished Equipment, Government-Furnished Material, and Contractor-Furnished Equipment.

The history of Government-Furnished Property dates back to the early 1800s when it was used to help manufacture muzzle-loaded rifles. It fully matured during the huge industrial base build up of World War II. Today, DOD's policy is to discourage the use of Government-Furnished Property. But if it can be justified and is available, Government-Furnished Property can assist a Program Manager to meet his cost, schedule and performance parameters. [Ref. 1: pp 8-4]

III. DECISION CRITERIA FOR THE USE OF GOVERNMENT-FURNISHED PROPERTY

A. ADVANTAGES OF THE USE OF GOVERNMENT-FURNISHED PROPERTY

As stated prior, it is the Government's policy not to provide Government-Furnished Property. However, when it is determined to be in the best interest of the Government by reason of economy of scale, standardization, expediting production or other appropriate circumstances, Government property should be used in the performance of Government contracts. [Ref. 26: pp XIX-5]

Government economy of scale is a primary advantage of providing Government-Furnished Property to the contractor. Through the use of Government-Furnished Property, the Government can avoid paying additional costs to the contractor for any unneeded items being purchased or manufactured to fulfill the requirements of the contract. If Government-Furnished Property has already been acquired for another contract and is sitting idle in a warehouse, it doesn't make sense for another contractor needing the same property to acquire the same item elsewhere. Additionally, the Government can reduce not only the cost of the property,

but the associated costs that would be attributable to the item such as General & Administrative and Marketing costs.

It may also be a case of second sourcing. If the Program Manager decides to second source, it may be advantageous to move some Government-Furnished Property from the prime contractor to the second source. By using existing Government-Furnished Property, a prudent Program Manager can drastically reduce the start up costs of a contract. [Ref. 26: pp XIX-2]

Secondly, the Government has greater buying power than most contractors and can position itself to receive quantity discounts for items purchased and provided as Government-Furnished Property. If a special jig, mold or pattern is required for a multitude of contracts, it may be advantageous to buy a large lot of these special tools and provide them to the contractors. Again this can result in cost savings on the contract. [Ref. 25: pp 31]

Government-Furnished Property can also assist to promote the Federal Government's socioeconomic policies in the acquisition process. By law, all contracts exceeding $500,000 must contain a subcontractor plan requiring prime contractors to consider the use of small and disadvantaged businesses. If the Government offers Government-Furnished Property in the proposal, this may enable small and

disadvantaged businesses the opportunity to bid as a sub-contractor for a Government contract and result in a higher participation rate of small businesses. Many small businesses do not have the organic manufacturing or production capability to perform as subcontractors without the assistance of the Government.

The Government can realize several benefits from involving small businesses through the use of Government-Furnished Property. The small businesses may have more efficient manufacturing processes and superior flexibility than the larger contractors with complex organizational structures, and thusly significant cost savings can be passed on to the Government. [Ref. 6: pp 686]

In many instances standardization may be the most important consideration in the decision to use Government-Furnished Property.

As one author stated: [Ref. 28: pp 4-79]

> Use of standard materials and procedures lead to life cycle cost benefits. They are higher reliability, simplified training, proper documentation, and a more stable logistic support base.

If the Government is building multiple systems that need to be interoperable, then it is simply more efficient for the Government to provide key items to the contractor, rather than detailing the exact specifications. With scarcer resources and less money being appropriated for system acquisitions, the life cycle costs must be carefully examined for each system fielded. Savings can be realized in the form of reduced repair part costs, reduced line item stockages, simplified maintenance procedures, and reduced operator training requirements. Standardization also fosters interoperability among the Services and foreign allies.

With weapon systems becoming increasingly complex and the manufacturing requirements of each system becoming more costly, it is unrealistic to think that the large number of contractors today can be maintained as a military industrial base in the future. As money for contracts becomes scarcer, it is in the Government's best interest to maintain the rights to technical data packages that can be provided to other contractors. [Ref. 9: pp 40] This will ensure the Government can broaden the industrial base that is capable of increased production when and if it should be required. Additionally, as programs are terminated prior to production, the technical data packages may be the only

source of the program's history once it is shelved. In today's downsizing environment, many companies who originally did the technical data package may not still be operating when they are needed.

The rights to technical data packages that can be provided to other contractors has other benefits. The use of technical data packages as a form of Government-Furnished Property provides insurance of uninterrupted production in the event the prime contractor fails to fulfill its obligation. The Program Manager can use the technical data package to solicit a new contract.

Systems that require special security considerations, such as stealth technology, are suited for Government-Furnished Property. The "black programs" may require hangars at secure Government facilities in order to conduct production. Government facilities may be the only way to prevent access from subversive activities to the system's design or materials being used. It may be that the Government needs special oversight in the testing, control, or distribution of secret raw materials and a Government facility is the only way to provide the level of security needed. [Ref. 9: pp 39]

Contract type is another consideration for Government-Furnished Property. When the Government enters

into a cost-reimbursement type contract, all assets acquired or produced under the terms of the contract are by definition Government-Furnished Property. Upon completion of performance, the contractor is notified by the contracting officer as to the actions the contractor must take to be relieved of the property responsibility. [Ref. 9: pp 38]

Lastly, Government-Furnished Property may be the only way to create competition. Many companies may not be able to compete for a contract unless special machinery, tooling, or equipment are provided. Government-Furnished Property may also be the only way to prevent from having a sole source contractor and receiving a fair and reasonable price. As written in the FAR Part 45, Government-Furnished Property cannot be used to give one contractor a competitive advantage over another. [Ref. 27: pp 45.102] But in many cases, Government-Furnished Property may be the only way to create competition and give the Government a better position for the negotiation of a contract.

While it is the Government's policy not to provide Government-Furnished Property, there are a number of situations where it is advantageous to the Government. When providing Government-Furnished Property results in cost

savings to the Government or any other advantageous situation, it should be considered by the Program Manager.

B. DISADVANTAGES OF THE USE OF GOVERNMENT-FURNISHED PROPERTY

An initial disadvantage is the Government-Furnished Property may give an competitive edge to the contractor who utilizes or controls Government-Furnished Property as opposed to the contractor who utilizes private property. The Government-Furnished Property may be in storage or retained by a contractor in compliance with another Government contract, and then used for subsequent Government contracts. Great care and oversight are required by the Contracting Officer during the sealed bid or negotiation process to charge rent or apply evaluation factors to offset a possible competitive advantage. If the appearance of a competitive advantage may exist, a protest could occur and delay the award of a contract. [Ref. 26: pp XIX-2]

Another disadvantage of Government-Furnished Property is accountability. This was identified during a hearing before a Subcommittee on Government Operations in the House of Representatives. Mr. Frank Conahan, Director of the National Security and International Affairs Division, testified before the hearing that he estimated over 8.4

billion dollars worth of Government-Furnished Property is in the possession of contractors. The total value could be even greater because DOD and the Services have no central accountability or visibility over how much Government-Furnished Property is acquired annually, how much is being used, or how much is being discarded. [Ref. 7: pp 5] A later study showed that Mr. Conahan greatly underestimated Government-Furnished Property in the hands of defense contractors and that the totals are drastically increasing, but his point is valid. In 1986, it was estimated that there was over 45 billion dollars in the possession of defense contractors and in 1993 the number rose to over 90 billion dollars. [Ref. 4]

At present, the only agency to oversee Government-Furnished Property is the Defense Government Property Council supplemented by focal points within each of the Services. The Council, in Mr. Conahan's view, is understaffed and operates on an *ad hoc* basis. It does not have adequate authority to direct the Services to follow its recommendations. Neither the Council nor the Services have a Management Information System (MIS) technology base necessary to manage the large volume of Government-Furnished Property. Contracting Officers are the major information source for tracking Government-Furnished Property and are so

busy that they often forget and don't document Government-Furnished Property transfers. [Ref. 7: pp 5]

Another disadvantage noted during the hearings was the excess or unused quantity of Government-Furnished Property at contractor locations. A study directed by Mr. Conahan also found a majority of the excess or unused Government-Furnished Property required for active contracts was in storage and not reported to DOD or Service officials as excess. Contractors are charging for unnecessary storage costs, and are preventing the use of the Government-Furnished Property by other contractors. An example noted that a DOD contractor was in custody of over 1545 Government-Furnished Property items valued at over 10 million dollars. The Government-Furnished Property had been unused in the contractor's warehouse for over 15 years. Dozens of examples of similar magnitude were noted before the Subcommittee hearing. [Ref. 7: pp 35-37]

Many other GAO reports referenced in the hearings discovered other abuses. They found that military contractors requisitioned Government-Furnished Property without the Program Manager researching and determining the cost. In some cases, the cost to transport and provide Government-Furnished Property was more costly than if commercially acquired by the contractor. The GAO also

determined that over 286 million dollars of Government-Furnished Property was in excess of current needs. [Ref. 29: pp 6-10]

The timely delivery of Government-Furnished Property is the Government's responsibility. Failure to deliver the Government-Furnished Property on time is considered a constructive change to the contract. This entitles the contractor to an equitable adjustment for any reasonable costs occurred during the delay. It also requires the Contracting Officer and contractor to renegotiate the terms and delivery schedule of the contract. An untimely delivery for whatever reason only hurts the Government in terms of money and delays in fulfilling the terms of the contract. [Ref. 26: pp XIX-3]

When Government-Furnished Property is provided to the contractor, the Government's obligation is to ensure the Government-Furnished Property is suitable for its intended purpose. Only when the contract specifies that the Government-Furnished Property is provided in an "as is" condition does the Government lose this responsibility. The Government-Furnished Property clause for fixed-price contracts contains the following: [Ref. 1: pp 8-5]

> The delivery or performance dates for this contract are based on the assumption that Government-Furnished Property suitable for use (except for such property furnished "as is") will be delivered to the contractor...

The determination of suitability for use is made when the Government-Furnished Property actually arrives at the contractor's location. The contractor determines whether the Government-Furnished Property is reasonably suitable to the degree and scope of which it will be used to fulfill the terms of the contract. Since this is a subjective observation, delays can occur in determination of suitability. If the Government-Furnished Property is determined not to be suitable, the contractor is then entitled to an equitable adjustment of reasonable costs until new Government-Furnished Property can be delivered or obtained from an external source. The Contracting Officer and contractor are also required to renegotiate the terms and delivery schedule of the contract. [Ref. 7: pp XIX-3]

C. DECISION FACTORS FOR THE USE OF GOVERNMENT-FURNISHED PROPERTY

Acquisition professionals such as Program Managers should consider the following factors when deciding whether or not to provide Government-Furnished Property as part of

their acquisition strategies: personnel resource constraints, design stability, adequacy of the technical data packages, degree of commonality of use, warranties, and cost savings.

Before a Program Manager decides to use Government-Furnished Property, he must first be sure his organization is adequately staffed to manage the property. Since the Government assumes responsibility for Government-Furnished Property delivery and accountability, Program Managers must ensure sufficient technical, administrative, and support personnel are available (either in-house or by matrix support) to intensely manage Government-Furnished Property efforts in order to help mitigate program risks. During the past decade, we have seen a reduction in the number of acquisition personnel assigned to a Program Manager's office while the complexity of the processes and products used to develop a major weapon system has increased. Although there are exceptions, prime contractors are generally better staffed to manage property than a Program Manager's office. Therefore, the more constrained an acquisition organization's personnel resources, the less attractive is Government-Furnished Property. [Ref. 12]

Another major factor for Program Managers to consider is the system's design stability. Unstable or immature system designs require an extraordinary amount of management and technical effort to properly document and integrate the various components. The Government assumes responsibility for quality, reliability, delivery and integration of all Government-Furnished Property components, and thus assumes a great deal of program risk. However, should these items be provided by the contractor, the contractor assumes the aforementioned risk. Program Managers with unstable system designs should perform a detailed risk analysis to determine whether or not to use Government-Furnished Property. [Ref. 15]

Program Managers must also consider the comprehensiveness and reliability of technical data packages when deciding the merits of Government-Furnished Property. If the Government provides a technical data package for a new contract, the contractor may have to make changes to the technical data package to manufacture and deliver the end product, which could result in an equitable adjustment to the cost and schedule. [Ref. 15]

A poorly written or unreliable technical data package may also not meet the specifications needed. Although the item must still meet form, fit and function provisions, the

Government not only runs the risk that the item will be unable to be integrated into the system, but also that it won't be supportable when the system is operationally deployed. Program Managers should avoid providing Government-Furnished Property for items lacking firm or untested technical data packages. [Ref. 15]

Whenever possible, Program Managers should consider providing common use items as Government-Furnished Property. An example is a special tool that is used in a majority of Programs across the Services. The use of Government-Furnished Property for components common to a large number of systems can result in significant life cycle cost savings. Additionally, using Government-Furnished Property to make common use items could provide for improved logistics support, while requiring minimal management effort on the part of the Government. [Ref. 5: pp 166]

Since a warranty is now required for all defense contracts of major weapon systems, the desired type and length of a warranty is also a consideration. If a Government technical data package is negotiated and used for a contract, the contractor may not completely warrant the item because of speculation to the quality and reliability of the technical data package. If a Program Manager desires a comprehensive or lengthy warranty, Government-Furnished

Property may not be the best choice in negotiations. [Ref. 13]

D. SUMMARY

There are certain situations in which Government-Furnished Property is advantageous to the successful completion of a Government contract. They are economy of scale, second sourcing, standardization, socioeconomic factors, industrial base, technical data packages, and creating competition. However, there are also disadvantages such as competitive edge, accountability, excess, timely delivery, and suitability.

Program Managers have historically realized cost savings associated with the use of Government-Furnished Property. However, any potential cost savings must be tempered by the decision factors previously mentioned. Since the Government assumes the responsibility for Government-Furnished Property, any schedule or performance problems associated with this Government-Furnished Property could offset the cost savings. There are also a number of hidden costs which serve to counter the "paper" savings achieved through Government-Furnished Property. These costs are hard to measure and allocate, but include costs

associated with in-house management, support and administration, conflict resolution, and future claims. Cost savings which accompany the use of Government-Furnished Property are often greatly exaggerated, and such savings should not be considered in a vacuum, but in conjunction with other equally-important factors. [Ref. 16]

IV. ARMY'S ORGANIZATION FOR THE ACCOUNTING OF GOVERNMENT-FURNISHED PROPERTY

A. ORGANIZATION

The Department of Defense's (DOD) chain of command structure for the responsibility and management of Government-Furnished Property is the Office of the Assistant Secretary of Defense (Production and Logistics). In particular, the Office of Government Contract Property Policy sets policy and procedures for the use of Government-Furnished Property at DOD level for all the services. [Ref. 19]

Subordinate to the Office of the Assistant Secretary of Defense (Production and Logistics) and at the top of the Army's chain of command structure for the responsibility and management of Government-Furnished Property is the Office of the Assistant Secretary of the Army (Research, Development, & Acquisition). Other key players include the Office of the Deputy Assistant Secretary of the Army (Procurement) in which the Director, Procurement Policy and the Deputy for Procurement Procedures write and recommend policies and procedures for use of Government-Furnished Property at the Army level for all acquisition programs. [Ref. 19]

Subordinate to them is the Army Material Command. At the Army Material Command headquarters, the Head of Contracting Activity and the Deputy Chief of Staff for Acquisition incorporate and implement higher headquarters' guidance for the use of Government-Furnished Property in the Army's system acquisition programs. Within the Army Material Command Headquarters, the newly renamed Contracting Policy Division reports and interacts with these two agencies. As the command center for the implementation and management of Government-Furnished Property at the Army level, they interface with the Defense Contract Management Command as a liaison between these two organizations. Their responsibilities also include: the Army's Representative to the Defense Acquisition Regulatory Council Property Committee and Army's representative to the Defense Government Property Council. [Ref. 19]

According to Government-Furnished Property acquisition lines of authority, below the level of the Army Material Command, there are no official separate and distinct offices or agencies in place which have a direct authority over the management, use, and accounting of Army Government-Furnished Property with the Program Manager's office. There are, however, many agencies in place which assist and interface with the Program Manager to manage and account for

Government-Furnished Property effectively. The Program Manager normally reports and keeps his higher Program Executive Office abreast of key decisions and pertinent information regarding the use of Government-Furnished Property. Another agency, the Defense Industrial Plant Equipment Center, plays a key role in the use of Government-Furnished Property. They are the depository of Government-Furnished Property for all the Services. They maintain warehouses in Memphis, TN. and Columbus, OH., which store, repair, and dispense of Government-Furnished Property to acquisition programs that request it from their inventory in the warehouses where it's stored. At contract close-out, they are the agency which receives Government-Furnished Property from the contractor when it is rendered still useful for future contracts. [Ref. 15]

Within the Program Managers' offices visited while researching this thesis, the basic personnel structure was about the same. Depending on staffing levels and magnitude of the Program Manager's office, normally one person has the responsibility to manage and account for Government-Furnished Property. In most offices this was a matrix support function. The GS 1103 job series, Property Administrator, was usually the focal point for

Government-Furnished Property in a Program Manager's office. [Ref. 12]

B. PROPERTY ADMINISTRATOR

As stated above the GS 1103 job series, Property Administrator, was the focal point for Government-Furnished Property in most Program Managers' offices. The Property Administrator was usually provided to the Program Manager through matrix support from the Defense Contract Management Command. In a new management support scheme, the Defense Contact Management Command has now selected to approach contract administration as a team effort or package. With each program, a team consists of a Contracting Officer, Price Analyst, Industrial Specialist, Transportation Specialist, Quality Assurance Representative, and Property Specialist as a minimum. They are chartered to establish open communications with each of their functional elements. Depending on the size and stage of a program, the team is selected to operate in the most effective manner. [Ref. 17]

The matrix management can be assigned in several ways. Those programs such as the M1A1, Abrams Tank, that habitually deal with large amounts of Government-Furnished Property, have Property Administrators assigned to Defense

Plant Representative Offices and work full time at the contractor's facilities. Those programs such as Medium Tactical Vehicles, that deal with virtually no Government-Furnished Property, receive support from Defense Contract Management Area Operations in which Property Administrators provide support to a district. The Property Administrator will have multiple contracts within that district and no ties to one particular contractor. [Ref. 17]

The Property Administrator acts on behalf of the contracting officer. He is appointed in writing by a "Certificate of Appointment" in accordance with agency directions and DFARS 245.7001. The objective of the Property Administrator is to attain efficient, economic, and uniform management of Government-Furnished Property required for the performance of a contract. Since the contractor is directly responsible for the use, maintenance, repair and disposal of Government-Furnished Property and also maintains the recordkeeping system, the Property Administrator's main function is that of oversight. The Property Administrator establishes and maintains a "Contract Property Control Data File" for each contract under his supervision. This file contains pertinent data including records and transfers of Government-Furnished Property to the contractor. The

Property Administrator corresponds with the Contracting Officer and the contractor through the use of DD Form 1716 "Contract Data Package Recommendation/Deficiency Report". DD Form 1716s are filed and maintained by the Property Administrator until contract close-out. The Property Administrator duties and responsibilities begin at pre-award survey and end after contract close-out when a "contractor relief of responsibility" for the Government-Furnished Property has occurred. [Ref. 11: pp 2-3, 3-24 - 3-27]

C. REPORTS

Aside from the DD Form 1716 "Contract Data Package Recommendation/Deficiency Report" which is completed on an "as needed" basis, the DD Form 1662, "Report of DOD Property in the Custody of Contractors" is the only required annual report for the use of Government-Furnished Property. The contractor is responsible for preparing this report in accordance with FAR 45.505-14 and DFARS 245.505-14 for all DOD contracts. This report should include all DOD-owned Government-Furnished Property in the contractor's possession, including property accountable to a prime contract and also property located at a subcontractor's plant and/or alternate locations. The data are reported as

of September 30 of each year. However, anytime the Contracting Officer gives the contractor a "contractor relief of responsibility" and directs the appropriate disposal of Government-Furnished Property to the contractor, the contractor must provide a DD Form 1662 to report a zero balance on the contract once it has been disposed of properly. [Ref. 11: pp 3-25]

The DD Form 1662 is a self-explanatory form and contains instructions and required codes on the reverse side. The contractor is required to furnish the prepared report, in duplicate, to the Property Administrator no later than October 31 each year. The Property Administrator will then forward the report though the Defense Contract Management Command Headquarters to the Army Material Command's Contracting Policy Division. [Ref. 11: pp 3-24]

Once a Property Administrator receives the report, he will verify that the contractor's property control system, including both written procedures and practices, were reasonable for an accurate preparation, contract validation, and timely submission. If there are indications of cost and quantity errors, the Property Administrator shall request, through the Contracting Officer, assistance from the Defense Contract Audit Agency. The Defense Contract Audit Agency can then audit and perform a detailed analysis to determine

the extent of the deficiencies and make recommendations. [Ref. 11: pp 3-25]

The Property Administrator will also compare the DD Form 1662 with his own "Property Contract Assignment Listing" for each contract with the contractor to verify its comprehensiveness and accuracy. Once the Property Administrator is satisfied with the DD Form 1662, he attaches a cover letter to the document with an explanation of future Government-Furnished Property issues and concerns. A copy is then filed in the Property Administrator's "Contract Property Control Data File" until contract close-out. [Ref. 11: pp 3-26]

D. SUMMARY

There are many new players and office name changes in both DOD and the Army for the policymakers of the use of Government-Furnished Property since Mr. Conahan testified before the Subcommittee on Government Operations in the House of Representatives. However, the roles and responsibilities for accounting and maintaining accurate records of Government-Furnished Property still rely heavily between the Property Administrator, GS 1103, and the contractor. The Property Administrator needs to be

identified early in the contracting process through matrix support in order to assist the Program Manager and Contracting Officer to make intelligent decisions about the use of Government-Furnished Property in their program.

The DD Form 1662 is the only record maintained by the Property Administrator to account for Government-Furnished Property. It is essential the Property Administrator be properly trained and motivated to account for Government-Furnished Property transfers and disposals throughout the year to ensure that the Government-Furnished Property under his purview are accounted for properly.

V. SURVEY RESULTS

A. INTRODUCTION

In answering the primary thesis question; "Can current Army Acquisition Programs manage and account for Government-Furnished Property in a more effective manner in terms of man-hours expended or monetary savings?", a comprehensive survey was mailed to active Army Program Managers and their Defense contractors using a variant of the data source matrix. The primary thesis question served as the overall issue and the four subsidiary questions as the criteria. From the four subsidiary questions, 13 questions were developed as data requirements and formed the body of the survey. Once a majority of the surveys were received from both active Army Program Managers and their Defense contractors, personal interviews were also conducted with Army Property Administrators and their Defense contractors at Redstone Arsenal, Alabama to clarify and verify the data collected in the surveys.

The survey was addressed to the Program Manager and the Defense contractor with a cover letter which clearly defined what Government-Furnished Property was under the purview of

this thesis. Many times when discussing Government-Furnished Property, some Property Administrators confused Government-Furnished Property with Government-Furnished Equipment, Government-Furnished Material, and Contractor-Furnished Equipment. It was not the scope and intent of this thesis to address these additional aspects and similar terms to Government-Furnished Property. This thesis strictly focuses on Government-Furnished Property as defined in Chapter II.

As stated above, the survey was addressed to the Program Manager and the Defense contractor with a return suspense. To obtain a more accurate and open response to the survey, the cover letter contained a disclaimer that the results of the survey were non-attribution and no Program Manager or Defense Contractors' survey responses would be referenced in the thesis. The cover letter also stated that the Property Administrator was the intended audience for the survey responses. By addressing the survey to the Program Manager and flowing down the organization's structure to the Property Administrator, the intent was to encourage the entire chain of command to be cognizant of the survey and to add any input to the results provided by the Property Administrator.

In this chapter, the results of each survey question are addressed and analyzed. From the results and analysis of this chapter, the next chapter of this thesis will make specific recommendations to the Army's current method of management and accounting of Government-Furnished Property.

B. RESPONSE AND ANALYSIS OF SURVEY QUESTIONS

Question 1. Which policies or regulations do you commonly reference for the use of Government-Furnished Property?

SURVEY RESPONSE DATA:

Federal Acquisition Regulation (FAR)	94%
Defense Federal Acquisition Regulation Supplement (DFARS)	94%
Army Federal Acquisition Regulation Supplement (AFARS)	91%
Local (In-house) Policies & Procedures	72%
Other	6%

DISCUSSION AND ANALYSIS:

This question served three purposes. First, it was intended to force the Property Administrators to obtain and review the appropriate regulations and policies they use. With the regulations and policies in front of them, they could use them to assist in answering the survey correctly.

Secondly, it was intended to highlight if there was a wide discrepancy in the type of regulations used by Army Property Administrators and their Defense contractors to manage Government-Furnished Property. The results show that the majority of the Army Property Administrators and their Defense contractors use the appropriate regulations and most highlighted which parts and subparts they refer to the most. FAR Part 45 and DFARS Part 245 were on a majority of the responses. Of the local regulations, the respondents stated they were written to further interpret and define the Property Administrator's use of Government-Furnished Property beyond the FAR, DFARS, and AFARS. Specifically, those programs, which have command purview under the Communications-Electronics Command and the Defense Logistics Agency, have separate and distinct written policies that govern Government-Furnished Property that they must adhere to in addition to the guidance found in the FAR, DFARS, and

AFARS. Although the question seems straight forward, two Army Property Administrators, not Defense Contractors, oddly answered that they reference the contract for the use of Government-Furnished Property.

Lastly, the intent of the question was to find out what percentage of the respondents used the most current DOD guidance for the use of Government-Furnished Property, DOD Instruction 4161.2 and DOD Instruction 4161.2-M. Surprisingly, only seven respondents replied that this was one of the references they used.

DOD Instruction 4161.2 is the "Acquisition, Management, and Disposal of Government-owned Contract Property", dated 31 December 1991 and signed by the Assistant Secretary of Defense (Production and Logistics). DOD 4161.2-M is the "DOD Manual for the Performance of Contract Property Administration", and is also dated 31 December 1991 and signed by the Assistant Secretary of Defense (Production and Logistics). Both instruction manuals provide uniform policies and procedures for accomplishing the contract property administration requirements of the current FAR, Part 45 and DFARS, Part 245. They both apply to the Office of the Secretary of Defense, Military Departments, Defense Agencies, and all DOD Field Agencies. The instruction manuals were effective upon signing on 31 December 1991 and

are for mandatory use by all DOD components. The manuals also instruct DOD components to limit supplemental instructions to unique requirements only. The instruction manuals also cancel and replace DFARS Supplement #3. After questioning the Office of the Assistant Secretary of Defense (Production and Logistics), Office of Government Contract Property Policy, this is officially, the latest guidance for the administration of Government-Furnished Property to be put in the field. The Office of Government Contract Property Policy acknowledged that certain agencies within DOD have not properly embraced and followed the instructions in the two manuals. [Ref. 18]

It is difficult to measure the man-hours and monetary savings of this research question. But, if the entire DOD Property Administrator community abided by one Government-Furnished Property regulation, a more effective system would surely benefit this area of Army acquisition.

Question 2. Are there any DOD and/or Army policies and regulations which you feel should be added because of real-time requirements or should be deleted because of obsolescence?

SURVEY RESPONSE DATA:

Yes	22%
No	78%

DISCUSSION AND ANALYSIS:

The purpose of this question was to identify any DOD and Army policies and/or regulations governing Government-Furnished Property that should be added or deleted because of the sweeping acquisition reform that has occurred in the past year. The overall response from the survey is that the current policies and regulations for the use of Government-Furnished Property address the issues Property Administrators face a on a day-to-day basis. Most asserted that what was lacking in the FAR, DFARS, and AFARS, was supplemented adequately in their local and in-house policies and procedures. A majority of the respondents also agreed there was enough latitude in the policies and regulations to allow the Property Administrators to tailor there use of Government-Furnished Property to their program specific needs. Some respondents even spoke that they felt with all the hype of acquisition reform and the "Reinvention Labs" that some obsolescent requirements could be waived at

the Program Manager level as long as it was justified and documented.

Of the respondents that said there should be changes to current policies and regulations, the instances were isolated and program specific cases. One respondent stated that in a Foreign Military Sales Coop, Government-Furnished Property policies and regulations need to be readdressed to allow Army contractors to shift Government-Furnished Property to a foreign contractor. One respondent declared that there should be one Army regulation for the use of Government-Furnished Property. However, this respondent also had never heard of DOD Instruction 4161.2.

Another respondent stated that the dual-use regulations were not conducive to allowing the contractor to use Government-Furnished Property for commercial applications. The respondent asserted there were no common-sense judgments allowed in this instance of the use of Government-Furnished Property. Take for example, the case of a contractor making the same product for both a Government contract and a commercial application. If there is a break in production of the Government products being manufactured, the contractor operating the Government-Furnished Property shuts that production line down. There are no provisions which allow the Property Administrator to keep both production

lines open at half capacity to avoid the start up costs for the break in production. The Government ends up paying more for the product because of the time to restart the new line of production for the Government contract. There is no economy of scale. The respondent estimated that start up costs for one production line can add an additional $5000-10,000 to the cost of a contract.

Lastly, it was also suggested that a process for conducting an economic analysis of the impact of Government-Furnished Property be defined in the policy and procedures of current DOD and Army regulations. Many times the shipment, repair, and replacement of Government-Furnished Property is considerably higher than requiring the contractor to acquire the needed property independently. One respondent said there was a need to know the condition and economic impact of the Government-Furnished Property before it is shipped to the contractor. Shipping costs typically range from the hundreds to thousands of dollars depending on the magnitude of the Government-Furnished Property being shipped.

Question 3. Are there any specific DOD and/or Army procedures which clearly need to be addressed to specify how to account and manage Government-Furnished Property properly?

SURVEY RESPONSE DATA:

Yes	38%
No	62%

DISCUSSION AND ANALYSIS:

The intent of this question was to identify any DOD and Army procedures that hinder a Property Administrator to account and manage Government-Furnished Property effectively. The overall response from the survey was that the procedures to account and manage Government-Furnished Property are adequate; however, when answering "Yes" there were some caveats in the responses to make this area better. One program office stated that the procedures for transferring Government-Furnished Property from one contractor to another needs to be further refined. Many times Government-Furnished Property arrives later than the scheduled delivery date to the contractor. Frequently, this

allows the contractor to blame schedule slippage on late Government-Furnished Property rather than on the real cause of the schedule slippage. It was suggested that alternative techniques such as "Just In Time" inventory procedures that most industries have adopted be included in the procedures that govern Government-Furnished Property.

Additionally, when transferring Government-Furnished Property from one contractor to another or from the Defense Industrial Plant Equipment Center, a classification system needs to be established which identifies the condition of the Government-Furnished Property before it is shipped to a new contractor. This would allow Property Administrators to decide if the Government-Furnished Property is suitable for its intended purpose. The Property Administrator can also decide whether or not to allow the Government-Furnished Property to be shipped to the contractor and used to fulfill the terms of the contract. Currently, the Government issuing agency does not a classification system which states an "A", "B", or "C" or some other type of rating system to classify Government-Furnished Property being delivered to a new contractor. Again, shipping costs typically range from the hundreds to thousands of dollars depending on the magnitude of the Government-Furnished Property being shipped.

It was also recommended that the procedures for who pays for repair and replacement of Government-Furnished Property be reexamined. Currently, the Program Manager who requisitions Government-Furnished Property to a contractor pays for any repair and replacement of the Government-Furnished Property when it arrives at the contractor's facilities. It was recommended that the Government issuing agency pay for any repair and replacement of the Government-Furnished Property until it is deemed suitable for its intended purpose. As one respondent stated:

> if the "guy" sending you Government-Furnished Property has to pay for repair, he'll damn sure take better care of it.

Lastly, some respondents noted that the procedures for determining the scrap condition of Government-Furnished Property be relaxed. This was also a recommendation made by the Process Action Team to the Federal Acquisition Regulation Part 45 Rewrite Team established by the Director, Defense Procurement, Eleanor Spector, 1994. [Ref. 21: pp 12-3 - 12-5] Currently, the Plant Clearance Officer (PLCO) reviews the contractor's determination that the Government-Furnished Property is in scrap condition. A formal limited screening by the PLCO and the General

Services Administration (GSA) is then conducted to determine if the unsalvageable property is of interest to any other Government agencies. The formal limited screening consists of the PLCO establishing a plant clearance case and forwarding the contractor prepared inventory schedules to the GSA. The GSA inspects each line of the inventory schedule for scrap Government-Furnished Property that may of use to other Government agencies. The process can add an additional six months and up to a year to the process of closing out a Government contract.

The Process Action Team conducted a random sample of plant clearance cases forwarded to the GSA for limited screening. The sample was pooled from the Defense Plant Representative Offices of United Defense LP San Jose, Lockheed Sunnyvale, Textron Lycoming Stratford, Westinghouse Baltimore, and Defense Contract Management Area Offices, San Francisco and Detroit. The data illustrate the very limited use of Government-Furnished Property forwarded and the reutilization rate of scrap items by the GSA. The following data clearly indicate that there is a 99% no interest in the scrap Government-Furnished Property. By allowing the PLCO to determine the scrap condition of the Government-Furnished Property, thousands of dollars could be saved for each contract in a more timely close out of a contract.

Sample Office	Forwarded	Reutilization
DPRO United Defense LP	364	0
DPRO Lockheed	45	0
DPRO Textron	46	0
DPRO Westing-house	45	0
DCMAO San Francisco	169	0
DCMAO Detroit	15	1
TOTAL	**684**	**1**

Question 4. Is there a need for one standard policy and regulation to be produced and updated by one central Army agency for the use of Government-Furnished Property?

SURVEY RESPONSE DATA:

Yes	56%
No	44%

DISCUSSION AND ANALYSIS:

The intent of this question was to query whether or not one regulation should be established or should each Program

office supplement instructions for the use of Government-Furnished Property properly in order to tailor them to their specific needs. The overall response from the survey was nearly split half and half in the responses. Most of the "Yes" responses were directed to standardization across DOD and the Army for the procedures to account, manage, and transfer Government-Furnished Property. Some of the respondents said that supplemental instructions in their program conflict with supplemental instructions of the various different Government agencies within DOD and make coordination very difficult and cause schedule delays in their programs. Others stated that if DOD Instruction 4161.2 was adopted and used by all the DOD agencies, it would make coordination much easier. Supplemental instructions could then be program specific and very limited. One respondent pointed out that the DOD Instruction 4161.2 states in its foreword that it encompasses all the policies of the FAR and DFARS and makes referencing and day-to-day decisions much easier. Lastly, one respondent stated that although the Contracting Policy Division at the Army Material Command Headquarters is not the only agency they deal with exclusively in regards to Government-Furnished Property, they do a good job of reporting and gathering any needed data.

It is difficult to measure the man-hours and monetary savings of this research question. Clearly, if the all the DOD Property Administrators adhered to one Government-Furnished Property regulation, a more effective Army acquisition system would exist.

Of the respondents that said "No", most respondents felt that centralization meant more bureaucracy. They also thought that centralization would limit their flexibility. One respondent stated that centralization would result in more reviews and additional policies to their management of Government-Furnished Property. The respondent also declared that centralization would create more delays in schedule because of the additional approvals for deviations to unique problems they encounter. Lastly, one respondent asserted that centralization could not adequately cover the complexity of using Government-Furnished Property in his program.

Question 5. Do you currently receive any literature or updates of current or future available Government-Furnished Property which could aid in your day-to-day decision-making process?

SURVEY RESPONSE DATA:

Yes	3%
No	97%

DISCUSSION AND ANALYSIS:

The intent of this question was to query if any literature or updates of current or future available Government-Furnished Property were being received by the Program Manager's office or by the Property Administrators. The overall response was "No". Of the one respondent who said "Yes", they got a report of Government-Furnished Property from a depot. The researcher was unable to contact the Property Administrator, who responded to the question, to find out if it was a formal and reoccurring report.

During the course of this research, it was ascertained that one such reporting system is being developed. According to the Defense Contract Management Command's Property Division, the Plant Clearance Automated, Reutilization, and Redistribution System, (PCARRS), will be on-line in December 1995. The Management Information System is being developed similar to America on-line or CompuServe type services and Government contractors will be able to buy

a software package that allows them to access PCARRS on the internet. Theoretically, Property Administrators, Program Managers, and Contractors will be able to access PCARRS and obtain what Government-Furnished Property is available, where it's located and the condition of the Government-Furnished Property. PCARRS will also allow access to where certain Government-Furnished Property is at any given moment and when it will be available. It will be updated monthly and also receive input from the Defense Industrial Plant Equipment Center. [Ref. 17]

The intent is to manage Government-Furnished Property more effectively, bring visibility to the Government's current inventory and allow decision-makers the ability to conduct an economic impact study of its feasibility. It is also intended to reduce the costs of shipping Government-Furnished Property. PCARRS is designed to eliminate the expense of shipping Government-Furnished Property to a storage facility and then being reshipped from the same storage facility to another contractor. The objective is to transfer Government-Furnished Property directly from one contractor to another. [Ref. 17] In a follow-up interview, the schedule of PCARRS being on-line and ready for use has slipped to early March 1996. [Ref. 20]

Question 6. Are there any DOD and/or Army oversight agencies which you feel should be added because of real-time requirements or should be deleted because of obsolescence?

SURVEY RESPONSE DATA:

Yes	0%
No	100%

DISCUSSION AND ANALYSIS:

The purpose of this question was to determine if higher headquarters oversight for the management of Government-Furnished Property was adequate or needed to be revisited. As this researcher found out, the subject of any type of oversight is extremely petulant in all facets of Army acquisition. All the Program Managers and Property Administrators stated that the oversight of their entire program was excessive, especially since the number of active Army acquisition programs has downsized greatly. But, this question was to elicit how Property Administrators felt specifically about the oversight of Government-Furnished Property in their programs. It was not a surprise all the respondents answered "No". They stated that oversight was

adequate and that this area of Army acquisition needed no more Government bureaucracy.

One response which was very pertinent was that the Defense Contract Audit Agency (DCAA) does not provide direct oversight of Government-Furnished Property in their program. There are no reports or policies which empower the DCAA with the oversight of Government-Furnished Property. They can be requested to perform an audit if the Property Administrator feels that there are some cost and quantity errors reported by the contractor. The Property Administrators desired this level of freedom when managing the contractors use of Government-Furnished Property.

Question 7. Are there any specific DOD and/or Army oversight procedures which need to be addressed to specify how to account and manage Government-Furnished Property properly?

SURVEY RESPONSE DATA:

Yes	12%
No	88%

DISCUSSION AND ANALYSIS:

The intent of this question was to determine if the oversight procedures currently in place need to be changed to specify how to account and manage Government-Furnished Property more effectively. The overall consensus was "No". For many of the respondents, the same reasoning as in Question #7 was applied here. Most of the respondents stated that the oversight procedures in place were adequate. The respondents said that any changes to the current oversight procedures would mean more bureaucracy, more frequent reporting, and more physical inventories of Government-Furnished Property by the contractor. Any of the above changes would only lead to more Government man-hours and add to the cost of the contract. Additionally, if the Property Administrator determines that there is an unsolvable problem with the contractor over Government-Furnished Property, the Property Administrator can always ask DCAA for an audit to explore the problem and make recommendations.

Of the respondents that answered "Yes", they were unique Government-Furnished Property oversight requirements implemented by the Program Manager's higher headquarters, the Program Executive Office. Of the respondents that had

two oversight agencies, the DPRO and the Army Material Command, they felt the Management Control Agency set up at the Program Executive Office level added an extra layer of redundancy that was not needed. The respondents also felt that this extra layer of redundancy added little if no value to their program.

Question 8. Is there a need for one standard oversight organization to review Government-Furnished Property policies and regulations to become the focal point for the use and reporting of Government-Furnished Property?

SURVEY RESPONSE DATA:

Yes	9%
No	91%

DISCUSSION AND ANALYSIS:

The purpose of this question was to query whether or not a single oversight organization was necessary to review Government-Furnished Property policies and regulations and to become the focal point for the use and reporting of Government-Furnished Property. Like the previous two

questions that addressed oversight, the overwhelming response was negative. Anytime oversight was mentioned in any text of a question, the immediate response was adversely answered by the respondents.

The Property Administrators were content with the current system and recommended no changes. In fact, the respondents stated that any attempt to create new oversight would be contradictory to the intent of the new Federal Acquisition Streamlining Act signed into law in 1994. The respondents also said that Government-Furnished Property is usually so unique and complex for each different Program Manager and that it should be governed at the lowest possible level.

Only the organizations which had oversight from two different defense agencies responded in a favorable manner. They both referred to Question #4 in their response to the survey. The respondents stated the need for standardization across all the Defense agencies for one standard oversight organization to review Government-Furnished Property policies and regulations. The respondents blamed the various organizations with creating different "Due-outs and Agendas" and for creating separate reports and additional unneeded work in their effort to manage Government-Furnished Property.

Question 9. How well would you rate your organization for the use of Government-Furnished Property according to current Army regulations and DOD guidance?

SURVEY RESPONSE DATA:

Excellent	34%
Good	63%
Fair	3%

DISCUSSION AND ANALYSIS:

The intent of this question was to twofold. First, it was to determine if the Program Managers were providing the proper oversight and top down commitment to Property Administrators in order to manage the complexities of Government-Furnished Property. Based on the responses, this area of Government acquisition is in good shape.

There was a unique trend in the answers and the amount of Government-Furnished Property used by the program. The respondents that used Government-Furnished Property extensively tended to rate their organizations in the "Excellent" range. These respondents stated they had full support for the management of Government-Furnished Property

at all levels in their organization. The respondents that used Government-Furnished Property occasionally tended to rate their organizations in the "Good" range. Only one respondent rated their organization as "Fair". This was a unique instance where usage of Government-Furnished Property was very minimal. Also, the management of Government-Furnished Property was not the primary responsibility of the respondent in the Program Manager's office.

Lastly, the intent of the question was to determine if there were systemic, common barriers in Army acquisition programs either through current Army regulations or common organizational structures that are a hindrance to the management and control of Government-Furnished Property. Based on the overall favorable responses the current Army regulations and organizational structures facilitate an adequate management system of Government-Furnished Property. One respondent stated that the system they have in place and the rapport they have with their contractor allows him to know the status of his Government-Furnished Property at all times. He also asserted that they have effectively planned the needed amount of Government-Furnished Property well in to the Low Rate Initial Production Phase of their program.

This program is currently in the early Demonstration and Validation Phase of their acquisition cycle.

Question 10. Does the DD Form 1662 ("Report of DOD Property in the Custody of Contractors") per DFARS 245.505-14 accurately report the use of Government-Furnished Property by Defense contractors?

SURVEY RESPONSE DATA:

Yes	88%
No	3%
Other	9%

DISCUSSION AND ANALYSIS:

The intent of this question was to threefold. First, it was to determine if the Program Managers were using DD Form 1662 "Report of DOD Property in the Custody of Contractors" per DFARS 245.505-14 and in accordance with DOD Instruction 4161.2. Based on the responses, the Program Managers that do submit the report to higher headquarters are using it according to the current policies and regulations. However, what is disturbing is the nine

percent of the others listed in the data that had never heard of the report. Coincidentally, these same respondents were not familiar with DD Form 1662 for the accounting of Government-Furnished Property. A more in-depth analysis revealed that they were using similar, but different in-house reports. Their higher headquarters, such as the Program Executive Offices, were incorporating all their programs into one report that was forwarded in the correct format.

Secondly, the intent of this question was to query whether or not the report was complete and provided the correct amount of detail to be useful to the Property Administrator. The respondents indicated that the report was adequate; however, the report required a low level of training when first introduced to the contractor. One respondent stated that they have a training program for their contractors on how to complete the report correctly. They also require their contractors to have a similar training program for new employees who manage Government-Furnished Property. The respondent went so far as to state that they would withdraw the Government-Furnished Property from the contractor's facilities if training were deemed inadequate. The respondents also stated that although the report is

submitted once a year, accounting for Government-Furnished Property is an on-going, daily activity. The report is a reflection of the contractor's use of Government-Furnished Property throughout the entire year summed up in one report.

Most respondents also noted the need to raise the tracking and monitoring threshold for low value Government-Furnished Property. Currently all Government-Furnished Property, no matter what the dollar value, is reported on the DD Form 1662. The lowest reporting level of Government-Furnished Property on the DD Form 1662 was recommended in the $1500-$3000 range. There is no difference on the DD Form 1662 that distinguishes $15 Government-Furnished Property from $100,000 Government-Furnished Property.

Typically, industry does not track property in plant of less than $1500. The following data illustrate that DOD spends twice the amount in managing Government-Furnished Property than private industry. A Coopers and Lybrand/TASC Project Team report sent to the Secretary of Defense, Dr. William Perry, in December 1994 shows the significant difference. [Ref. 21: pp 12-5 - 12-6]

COMPARISON	GOV'T	INDUSTRY
Property Line Items	1,531,927	1;650,760
Acquisition Cost	$12.5B	$18.5B
Contractor Cost of Management	$54.2M	$20.6M
Contractor Work Years	862	327
Items under $1500	820,000 (52%)	0
Value of Items	$1.5B (12%)	0

The data show that Government-Furnished Property valued under $1500 makes up 52% of the line items accounted for, yet only accounts for 12% of the total value of Government-Furnished Property in the system. The elimination of the stringent tracking and monitoring requirements of roughly 52% of the low value items should result in significant savings to industry. The significant savings to industry will subsequently be passed to the Program Managers in the form of lower overhead costs. This was also a recommendation made by the Process Action Team assigned to the Federal Acquisition Regulation Part 45 Rewrite Team.

Lastly, the intent of this question was to ascertain if this yearly report, as it is currently written, was sufficient for Property Administrators to accurately track

Government-Furnished Property. The overwhelming response of "Yes" indicates that the report was suitable for its intended purpose. The Property Administrators responded that the rapport they have with the contractor gives them confidence that the Government-Furnished Property listed by the contractor was accurate and complete. They also responded that their own internal control systems allowed them to cross-check the contractor's report.

Oddly, the one respondent who answered "No" to the survey stated that the contractor could misrepresent Government-Furnished Property on the report if not monitored properly. When discussing the rapport the respondent had with the contractor, he stated that he did not trust the contractor to report the DD Form 1662 accurately.

Question 11. Are there any specific areas which are not followed and how should they be changed in order for your organization to totally comply with all Army regulations and DOD guidance?

SURVEY RESPONSE DATA:

Yes	100%
No	0%

DISCUSSION AND ANALYSIS:

The purpose of this question was to query whether or not the Program Managers and the Property Administrators are in total compliance with all the Army regulations and DOD guidance or are there certain areas which do not make sense and intentionally are overlooked. It was also intended to validate the DOD Instruction 4161.2 and DD Form 1662 for thoroughness and completeness. Based on the response, it was evident that the Program Managers and Property Administrators are satisfied with both the instructions and the reporting system.

One respondent did caveat his "Yes" with one area of concern. He stated that the process of Government-Furnished Property close-out is too slow and burdensome. He stated that any legal way to expedite the close-out of the Government-Furnished Property was used. This was the only instance noted in the survey in which a respondent was not totally compliant with all Army regulations and DOD guidance for the management of Government-Furnished Property.

Question 12. Have you had difficulty with Government-Furnished Property in the past, and if so what sort of difficulty and in what ways?

SURVEY RESPONSE DATA:

Yes	81%
No	19%

DISCUSSION AND ANALYSIS:

The purpose of this question was identify any systemic problems that may plague the Property Administrator's ability to effectively manage Government-Furnished Property. As stated in Question #3. A majority of the respondents asserted that the procedures for transferring Government-Furnished Property from one contractor to another needs to be further refined. Frequently, Government-Furnished Property arrives at the contractor's facilities late and defective. Because the timely delivery of Government-Furnished Property is the Government's responsibility, failure to deliver the Government-Furnished Property on time could be considered a constructive change to the contract. If it was deemed a constructive change,

the contractor is entitled to an equitable adjustment for any reasonable costs occurred during the delay. It also may require the Contracting Officer and contractor to renegotiate the terms and delivery schedule of the contract. Again, it was suggested that alternative techniques such as "Just In Time" inventory procedures that most industries have adopted be included in the procedures that govern Government-Furnished Property.

Defective Government-Furnished Property was also identified as a systemic problem. The determination of suitability for use is made when the Government-Furnished Property actually arrives at the contractor's location. The contractor determines whether the Government-Furnished Property is reasonably suitable to the degree and scope that it will be used to fulfill the terms of the contract. If the Government-Furnished Property is determined not to be suitable, the contractor could be entitled to an equitable adjustment of reasonable costs until new Government-Furnished Property can be delivered or obtained from an external source. Again, a classification system needs to be established which identifies the condition of the Government-Furnished Property before it is shipped to a new contractor.

It was also recommended that the procedures for who pays for repair and replacement of Government-Furnished Property be reexamined. Currently, the Program Manager who requisitions Government-Furnished Property to a contractor pays for any repair and replacement of the Government-Furnished Property when it arrives at the contractor's facilities. It was recommended that the Government issuing agency pay for any repair and replacement of the Government-Furnished Property until it is deemed suitable for its intended purpose.

Also identified in many of the responses was not a problem with Property Administrators, but with the Procuring Contracting Officer (PCO). Too often PCOs are not specific in the contract on the contractor's role in acquiring Government-Furnished Property. Many contracts contain the "Boiler-plate" wording such as "The contractor will furnish all materials, equipment, and labor to perform..." and the contractors are interpreting this as a free reign to get Government-Furnished Property from any source. Unless specifically outlined in the contract, the Property Administrators are not privy to contractor decisions for where they obtain property to fulfill the terms of the contract. In some instances, Government-Furnished Property was not identified and recorded by the Property

Administrator until the contractor submitted his DD Form 1662. A less than ethical contractor could abuse this system.

Lastly, the respondents stated the need for Program Managers and Property Administrators to access platform vehicles being produced by another Program Manager or currently in the Army inventory. The respondents stated that it was often too difficult to obtain these needed items. They stated that equipment, such as the Abrams tank, should be available for program support either through a dedicated additional line item by the original Program Manager's office or through the Defense Industrial Plant Equipment Center in order to test and evaluate the support item being developed in their particular program.

Question 13. To which functional area within your organization is the responsibility for Government-Furnished Property assigned and is it located for the most efficient and effective performance. If not properly located, where should it be assigned?

SURVEY RESPONSE DATA:

DPRO or DCMAO (Property Administrator)	94%
Other	6%

DISCUSSION AND ANALYSIS:

The purpose of this question was to determine if the Property Administrator was indeed responsible for oversight in each of the programs surveyed. The overwhelming response was "Yes" as indicated by the results. The respondents indicated that oversight was provided by either the DCMAO or DPRO through matrix support. One respondent stated that 10 years ago this may have been a problem. But as Program's budgets have been reduced and there are fewer programs to manage, there is adequate oversight personnel available. Of the "Others" listed in the data, they were unique and program specific. For example, some specific buildings and facilities provided to contractors as Government-Furnished Property were managed by the Army Material Command and the other equipment used as Government-Furnished Property was managed by the DPRO.

Within the Army Program Managers offices, the respondents stated that the role of coordination and liaison

with the DPRO or DCMAO was either a full-time mission of their personnel or an additional responsibility depending on the size and quantities of Government-Furnished Property used by the program. It also depended on the phase of their acquisition cycle. In all but one of the Program Managers offices surveyed, the role of liaison was assigned to the Production and Logistics division. In the one instance, the function of oversight of Government-Furnished Property was assigned to the Readiness Management division within the Program Manager's office.

C. DISCUSSION OF OVERALL RESULTS

The respondents were very professional in there response to the survey. Furthermore, they were willing to take time out of their busy schedules for follow-up interviews in Redstone Arsenal, Alabama. Although Government-Furnished Property has a reputation of having systemic problems, such as being late and defective, the Property Administrators stated that this facet of Army acquisition has improved greatly in the past decade. The recent acquisition reform and reinvention labs have enabled Property Administrators to tailor program specific policies and procedures for their use and management of

Government-Furnished Property. In follow-up interviews with Property Administrators, the researcher outlined the major opinions and key points of this chapter and they agreed that the survey results were a good indication of the major issues facing the use and management of Government-Furnished Property today.

The next chapter highlights the major issues stated in the survey and makes specific recommendations for correcting each issue. At the completion of this thesis, a copy of the next chapter will be sent to the Process Action Team assigned to the Federal Acquisition Regulation Part 45 Rewrite Team for consideration when they meet again to discuss acquisition reform.

VI. CONCLUSIONS, RECOMMENDATIONS, AND AREAS OF FURTHER RESEARCH

A. GENERAL

The use of Government-Furnished Property offers acquisition professionals a potentially valuable tool to help save procurement costs and time to develop and field new systems. However, decision makers must weigh the advantages and disadvantages of Government-Furnished Property usage in order to manage program risks. Decisions on the use of Government-Furnished Property are often critical to program success, and should be made with a complete understanding of the balance between potential benefits and risks.

To answer to the primary question of this thesis, "Can current Army Acquisition programs manage and account for Government-Furnished Property in a more effective manner in terms of man-hours expended and monetary savings?", the survey and interviews provided an interesting insight into this area of Army acquisition. The survey consisted of 13 questions keying on four subsidiary areas where acquisition decision-makers can possibly draft reform to enable Program Managers and Property Administrators to more effectively

manage Government-Furnished Property. The four key areas examined were:

1. Existing regulations and policies for the use, management, and accounting of Government-Furnished Property.

2. Existing higher headquarters' oversight.

3. Army acquisition agencies use of Government-Furnished Property according to current Army regulations and DOD guidance.

4. Staffing for management of Government-Furnished Property.

Based on an in-depth examination of the above four key areas of this research, the purpose of this chapter is to outline the critical issues voiced by current DOD Government-Furnished Property policy-makers, Army Program Managers, Defense Contractors, and Property Administrators who deal with Government-Furnished Property on a daily basis. The following conclusions and recommendations are examined for the completion of this thesis.

B. CONCLUSIONS

CONCLUSION #1: There was not a wide discrepancy in the type of regulations used by Army Property Administrators and

their Defense contractors to manage Government-Furnished Property. The results show that the majority of the Army Property Administrators and their Defense contractors use the appropriate regulations. The Property Administrators, who were the purview of this thesis, understand how to manage and account for Government-Furnished Property according to the FARS, DFARS, and AFARS.

CONCLUSION #2: In a majority of the programs surveyed, the current policies and regulations for the use of Government-Furnished Property are adequate and address the issues Property Administrators face on a daily basis. What is lacking in the FAR, DFARS, and AFARS, was supplemented adequately in their local and in-house policies and procedures. There is also enough latitude in the policies and regulations to allow the Property Administrators to tailor there use of Government-Furnished Property to their program specific needs.

CONCLUSION #3: In only two isolated areas of the current policies and regulations for the use of Government-Furnished Property are they too restrictive according to Property Administrators. The two areas are the

current policies and regulations do not allow Program Managers to transfer Government-Furnished Property overseas in a Foreign Military Sales Coop. The second is the dual-use regulations are not conducive to allow the contractor to use Government-Furnished Property for commercial applications even if the Government can gain an economy of scale.

CONCLUSION #4: DOD Instruction 4161.2, "Acquisition, Management, and Disposal of Government-owned Contract Property", and DOD 4161.2-M, "DOD Manual for the Performance of Contract Property Administration", have not been adopted by the entire DOD community for the management and accounting of Government-Furnished Property. Both manuals provide uniform policies and procedures for accomplishing the contract property administration requirements of the current FAR, Part 45 and DFARS, Part 245.

CONCLUSION #5: There is no current process for conducting an economic analysis of the impact of Government-Furnished Property in the current DOD and Army policies and regulations. Because there is no economic analysis, many times the shipment, repair, and replacement

of Government-Furnished Property is considerably higher than requiring the contractor to acquire the needed property independently.

CONCLUSION #6: Currently, the Program Manager who requisitions Government-Furnished Property to a contractor pays for any repair and replacement of the Government-Furnished Property when it arrives at the contractor's facilities.

CONCLUSION #7: The procedures for transferring Government-Furnished Property from one contractor to another needs to be further refined and "Just In Time" inventory procedures, that most industries have adopted, need to be incorporated into the management of Government-Furnished Property.

CONCLUSION #8: Typically, Government-Furnished Property arrives at the contractors facilities late and defective. There is no classification or rating system established which identifies the condition of the Government-Furnished Property before it is shipped to a new contractor. Therefore, a Property Administrator can not

decide whether or not to allow the Government-Furnished Property to be shipped to the contractor and used to fulfill the terms of the contract.

CONCLUSION #9: The Plant Clearance Officer is very limited in his ability to review and determine the salvageability and scrap condition of Government-Furnished Property at contract close-out.

CONCLUSION #10: To date, there are no official DOD literature or updates of current or future available Government-Furnished Property being sent to the Program Managers offices or Property Administrators.

CONCLUSION #11: The higher headquarters oversight for the management of Government-Furnished Property was adequate. There are no reports or policies which empower the DCAA with the oversight of Government-Furnished Property. They can be requested to perform an audit if the Property Administrator feels that there are some cost and quantity errors reported by the contractor.

CONCLUSION #12: The organizations that used Government-Furnished Property extensively tended to rate their use of Government-Furnished Property according to current Army regulations and DOD guidance in the "Excellent" range. The organizations that used Government-Furnished Property occasionally tended to rate their organizations in the "Good" range. The organizations in which the management of Government-Furnished Property was not the primary responsibility of the Property Specialist and usage of Government-Furnished Property was very minimal tended to rate their organizations in the "Fair" range.

CONCLUSION #13: The common theme of the Property Administrators is that the system they have in place to account and manage Government-Furnished Property and the rapport they have with their contractors allows him to know the status of his Government-Furnished Property at all times.

CONCLUSION #14: Nine percent of the Army acquisition program offices surveyed are not reporting their Government-Furnished Property inventories using DD Form 1662 "Report of DOD Property in the Custody of Contractors" per

DFARS 245.505-14 and in accordance with DOD Instruction 4161.2.

CONCLUSION #15: The DD Form 1662 report is a reflection of the contractor's use of Government-Furnished Property throughout the entire year summed up in one report. The report is complete and provides the correct amount of detail to be useful to the Property Administrator; however, usually it requires a low level of training when first introduced the contractor.

CONCLUSION #16: Currently, all Government-Furnished Property, no matter what the dollar value, is reported on the DD Form 1662. There is no difference on the DD Form 1662 that distinguishes $15 Government-Furnished Property from $100,000 Government-Furnished Property. Typically, industry does not track in plant property of less than $1500. Because all Government-Furnished Property is inventoried and tracked, DOD spends twice the amount of managing Government-Furnished Property than private industry.

CONCLUSION #17: According to the Program Managers and the Property Administrators surveyed, they are in total compliance with all the Army regulations and DOD guidance for the management of Government-Furnished Property.

CONCLUSION #18: Typically, PCOs are not specific enough in negotiating the contractor's role in acquiring Government-Furnished Property. Many contracts contain the "Boiler-plate" wording such as "The contractor will furnish all materials, equipment, and labor to perform..." and the contractors are interpreting this as a free reign to acquire Government-Furnished Property at any time.

CONCLUSION #19: There are no policies and procedures currently in place which allow Program Managers and Property Administrators to easy access to platform vehicles being produced by another Program Manager or currently in the Army inventory.

CONCLUSION #20: In a majority of the Program's surveyed, oversight is provided by either the DCMAO or DPRO through matrix support and there is adequate oversight personnel available for each program office.

C. RECOMMENDATIONS

RECOMMENDATION #1: The DOD Instruction 4161.2, "Acquisition, Management, and Disposal of Government-owned Contract Property", and DOD 4161.2-M, "DOD Manual for the Performance of Contract Property Administration", be adopted and used by the entire DOD community for the management and accounting of Government-Furnished Property. Since both manuals provide uniform policies and procedures for accomplishing the contract property administration requirements of the current FAR, Part 45 and DFARS, Part 245, they should be adopted by all Services and Government agencies to promote more effective coordination. The Office of Government Contract Property Policy should also send out a letter signed by the Assistant Secretary of Defense (Production and Logistics), which reaffirms that the two documents are for mandatory use by the Office of the Secretary of Defense, Military Departments, Defense Agencies, and all DOD Field Agencies.

RECOMMENDATION #2: Redefine and rewrite the current policies and regulations to allow Program Managers to transfer Government-Furnished Property overseas in a Foreign

Military Sales Coop. if it makes economic sense. Also, redefine and rewrite the current policies and regulations for the dual-use regulations to allow a contractor to use Government-Furnished Property for commercial applications. This should be done if an economic impact study finds that its more cost effective to allow the contractor to use Government-Furnished Property for commercial applications rather than stopping production on a Government contract and then restarting and paying the start up costs for a break-in production. Thus Program Managers can realize an economy of scale. Approval for both recommendations should be "By exception only". The procedures for allowing the two recommendations should be through a Justification and Approval process coupled with an economic impact study and a clear decision authority established, such as the Milestone Decision Authority of the Program Manager.

RECOMMENDATION #3: Institute a written, standardized process in the DOD Instruction 4161.2 for conducting an economic analysis of the impact of Government-Furnished Property. The economic analysis should include all costs rather than just the cost of the actual Government-Furnished Property. The economic analysis should include shipment, maintenance, repair, replacement, accounting, inventory, and

disposal costs at contract close-out. Based on the in-depth economic analysis, the Program Manager, Property Administrator, and Primary Contracting Officer can evaluate all future contracts to determine the feasibility of providing Government-Furnished Property.

RECOMMENDATION #4: Because the Program Manager who requisitions Government-Furnished Property pays for any repair and replacement when it arrives at the contractor's facilities, develop processes and procedures in the DOD Instruction 4161.2 that the issuing agency make restitution for any repair and replacement of Government-Furnished Property not identified as defective when it arrives at a new contractor's facilities. Also, this process should be tied to the economic analysis suggested in Recommendation #3 and the classification system in Recommendation #6.

RECOMMENDATION #5: "Just In Time" inventory procedures, that most industries have adopted, need to be incorporated into the management of Government-Furnished Property in order to save in storage costs charged to the Government while Government-Furnished Property sits idle in

the contractors facilities. This should also be incorporated into the DOD Instruction 4161.2.

RECOMMENDATION #6: Develop and implement a classification system which identifies the condition of the Government-Furnished Property before it is shipped to a new contractor. This would allow Property Administrators to evaluate if the Government-Furnished Property is suitable for its intended purpose. The Property Administrator can also decide whether or not to allow the Government-Furnished Property to be shipped to the contractor and used to fulfill the terms of the contract. A classification system, with some type of metrics such as an "A", "B", or "C" condition or some other type of rating system to classify the Government-Furnished Property being delivered to a new contractor, should be used. Again, this should also be incorporated into the DOD Instruction 4161.2 and tied to the economic analysis and reimbursement system suggested in Recommendations #3 and #4.

RECOMMENDATION #7: Develop processes and procedures in the FAR, DFARS, AFARS, and DOD Instruction 4161.2 that allow the PLCO to determine the scrap condition of the

Government-Furnished Property. Previous data presented, clearly showed there was a 99% no interest in scrap Government-Furnished Property. The formal limited screening conducted by the PLCO and sent to the General Services Administration to determine if the unsalvageable property is of interest to any other Government agencies is an unnecessary and costly step in the management of Government-Furnished Property. By allowing the PLCO to determine the scrap condition of the Government-Furnished Property, thousands of dollars could be saved for each contract in a more timely close-out of a contract.

RECOMMENDATION #8: The PCARRS management information system should be on-line as soon as possible. At he earliest instance, contractors should be able to buy a software package that allows them to access PCARRS on the internet to obtain what Government-Furnished Property is available, where it's located and the condition of the Government-Furnished Property. It should also contain the condition of the Government-Furnished Property suggested in Recommendation #6. This would allow Property Administrators to manage Government-Furnished Property more effectively, bring visibility to the Government's current inventory and

further assist decision-makers to conduct an economic impact study of its feasibility.

RECOMMENDATION #9: The DD Form 1662 report as defined in DOD Instruction 4161.2 and DOD 4161.2-M needs be adopted and used by the entire DOD community for the management and accounting of Government-Furnished Property. Also, the report should be incorporated into PCARRS management information system to allow Property Administrators to manage Government-Furnished Property more effectively.

RECOMMENDATION #10: Rewrite the procedures in the FAR, DFARS, and AFARS to raise the tracking and monitoring threshold for low value Government-Furnished Property to between $1500-$3000. This recommendation could eliminate roughly 52% of the Government-Furnished Property line items accounted for by contractors and save the Government roughly 32 million dollars a year based on the data provided the Coopers and Lybrand/TASC Project Team report.

RECOMMENDATION #11: Property Administrators and PCOs need to coordinate early-on in the contracting phase of the acquisition process to develop the language of the contact

together in terms of the contractor's role in acquiring Government-Furnished Property. This could eliminate contracts that do not address or do not specify the contractors role in the use of Government-Furnished Property. This would also eliminate the contractor's free reign to acquire Government-Furnished Property at any time without authorization.

RECOMMENDATION #12: Develop processes and procedures in the FAR, DFARS, and AFARS that allow the Program Managers and Property Administrators to access platform vehicles being produced by another Program Manager or currently in the Army inventory. A dedicated, additional line item by the original Program Manager's office should be delivered to and managed by the Defense Industrial Plant Equipment Center in order to allow testing and evaluation of the support item being developed in another Program office. This policy should also be instituted as a written, standardized process in the DOD Instruction 4161.2 for the management of Government-Furnished Property.

D. AREAS OF FURTHER RESEARCH

RESEARCH AREA #1: Investigate the utility and role of the Defense Industrial Plant Equipment Center. Conduct a financial and economic impact statement of its existence in the role of managing Government-Furnished Property.

RESEARCH AREA #2: Conduct an economic impact analysis for "Just In Time" inventory procedures and its impact for the management of Government-Furnished Property.

RESEARCH AREA #3: Examine the feasibility of the development of a classification system which identifies the condition of the Government-Furnished Property before it's shipped to a new contractor.

RESEARCH AREA #4: Evaluate the PCARRS management information system for its impact on controlling the costs of Government-Furnished Property and increasing the effectiveness of managing Government-Furnished Property by Property Administrators.

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